REPORT ON THE COMPANY'S BUSINESS OPERATIONS AND THE STATE OF ITS ASSETS IN 2013

Daniel Beneš, Chairman of the Board of Directors and CEO of ČEZ, a. s.

Dear Shareholders, Ladies and Gentlemen,

I would like to take this opportunity to present you with the most important performance results of ČEZ, a. s. over the past year and its plans for the future. The report has been compiled based on facts known as of April 10, 2014, and as of February 27, 2014 for the 2014 Forecast of Financial Results, respectively.

See Fig. 1 „CEZ Group faces the European crisis in power engineering better than its competitors" in Annex 1 „Report on Business Operations and the State of Assets of ČEZ, a. s. in 2013" (hereinafter referred to as the Annex)

2013 was characterized as another difficult period for the power market in Europe. I dare say that despite all the troubles we had to face, we can evaluate the last year as a success from the CEZ Group's point of view. The CEZ Group achieved a net income of CZK 35.2 billion, which represents increase of value for shareholders by 14.1%, as measured by return on equity.

European power engineering finds itself in a deep crisis. Electricity prices for European customers and firms are gradually growing, in particular as a result of the massive guaranteed support for renewable resources. On the other hand, wholesale electricity prices have been considerably decreasing for many years, because electricity from renewable resources does not compete on the market, thus replacing electricity generated in conventional power plants. Together with the overall uncertainty concerning EU regulation of the energy industry, this development is leading to a major limitation of new investment in any kind of generation facilities. Another consequence of the gradually worsening conditions for the power engineering business is the problem associated with the return of part of the assets of all large power companies in Europe. They thus had to make considerable adjustments to fixed assets, which further deepened the trend of their decreasing profits. From 2010 to September 2013, leading European energy enterprises created adjustments or write-offs to 3 to 16% of their fixed assets, which represents tens to hundreds of billions of Czech Korunas. As regards the CEZ Group, this only amounted to 2.7% including the last quarter of 2013.

The CEZ Group is facing the European crisis in power engineering better than its competitors, also in terms of financial stability. As one of the few energy enterprises in Europe, we have managed to keep a reasonable debt ratio, as evidenced by maintaining the Standard & Poor's rating at the existing, historically highest A- level. We have managed this not only by leveraging our competitive generation portfolio, but also thanks to having identified threats in time, adopted active measures and adapted the development strategy to our financial possibilities. We are primarily responding to the turbulent development on the power markets by optimizing our portfolio, emphasizing internal efficiency and by developing new growth opportunities.

In 2013, we took some crucial steps, which will contribute substantially to the future stability of ČEZ and the coal and electricity markets in the Czech Republic. The first one is a long-term contract for coal provision for the Počerady power plant until 2062, or until decoaling of the Vršany mine, respectively. It is the result of one of the most complicated negotiations ever conducted in Czech power engineering history. It has significantly stabilized the situation on the coal and electricity markets for a long time to come. Another major success was the sale of the Chvaletice power plant, which concluded the long investigation of the European Commission in the form of a settlement. I am pleased that we managed to further increase the capacity of nuclear power plants last year, while at the same time attest to the high level of safety management during the OSART CORPORATE audit conducted by the International Atomic Energy Agency at the turn of September and October. The aim of the mission was to check the level of safety management and compliance with the Agency documentation in respect of corporate processes and their relationship to the nuclear safety of operations at both the Dukovany and Temelín nuclear plants. Nine experts from France, Finland, USA, Romania and the Agency audited seven areas, namely organization and management, independent supervision, human resources, communication, purchasing, technical support and maintenance. The output is a final report comprising 10 good practices in safety

management at ČEZ, a. s. to be recommended for adoption to other nuclear power plant operators, and 6 proposals and 3 recommendations for further improvement of processes. Implementation of these adopted measures will be reviewed by the follow-up mission after 18 months. Suitability and accuracy of the system setup was also checked by international missions at the Temelín and Dukovany nuclear power plants in 2013. The management system received a positive evaluation from the missions who found it to be in compliance with good global practice.

We will briefly describe development on commodity markets which are crucial for the CEZ Group. The price of the forward contract for electricity supply decreased in Germany from 45 EUR/MWh to about 36 EUR/MWh during 2013, almost attaining its eight-year minimum. The low wholesale electricity prices were associated not only with massive support for renewable energy sources and low prices for other commodities, but also with the prices of greenhouse gas emission allowances. The prices of emission allowances were placed under great pressure when, contrary to expectations, the proposal for backloading, i. e. temporary withdrawal was rejected by the European Parliament on the first vote. Their prices dropped under 3 EUR/t. Further negotiations at the European Union level ultimately led to a compromise and backloading was approved at the end of 2013, but the allowances erased only a part of the loss and closed the year at a level of 5 EUR/t, 26% lower than at the beginning of the year. A deeper reform to the system would be required to permanently eliminate the surplus of allowances.

See Fig. 2 „Current strategy is implemented through seven strategic programs" in the Annex

Given current development on the energy markets, the CEZ Group proceeded to an update of its strategy in 2013, which was specified in seven strategic programs. The latest CEZ Group strategy focuses on protecting value of existing business. We managed to optimize generation facilities, namely to increase the capacity of nuclear power plants and the efficiency and flexibility of coal resources in 2013. We have made additional preparatory steps to secure the long-term operation of the Dukovany nuclear power plant while also initiated the complex consolidation of foreign assets with a view to optimizing the capital structure of each company and reducing exposure in unviable markets. A stable pillar of the CEZ Group's strategy is internal effectiveness and savings as part of the Efficiency and Entrepreneurship program. The aim of this program is to support the initiative of employees and business segments in order to increase the value of the CEZ Group. The aim in renewable resources is to optimize the existing portfolio by selling selected projects or interests, and to develop, build and run only projects with an attractive rate of return.

In the medium term, the updated strategy emphasizes development of opportunities for growth aimed at making maximum use of the existing customer base and developing decentralized and small energy enterprises, i.e. high-efficiency electricity and heat generation close to the point of consumption, and providing effective energy services to the end customer. In 2013, the CEZ Group also consolidated its position of small cogeneration market leader as well as its position among alternative natural gas suppliers in the Czech Republic. The acquisition of heating companies in Klášterec nad Ohří and Vrchlabí supported its activities in traditional heating area.

The CEZ Group also progressed in the development of new business opportunities and started a highly intensive program of increased customer-orientation. The CEZ Group successfully entered the Czech telecommunications market in October as a new nationwide virtual mobile operator with its own product portfolio. This means that it is not only a resale of existing operators' products. Unlike most other virtual operators, ČEZ was also able to offer a high level of care through a wide network of sales and service points. The primary target group are existing customers such as households buying electricity and gas. Almost 54,000 customers made use of the transparent telecommunications services offer of ČEZ Prodej since launching the sale in mid-October 2013 to the end of March 2014.

Dear shareholders, we'd now like to move on to examining the actual figures and discussing the financial results of the CEZ Group in 2013, which have been consolidated for ČEZ, a. s. and its subsidiaries and other companies.

See Fig. 3 „2013 results reflect the worsening conditions in the power engineering business" in the Annex

Earnings before interest, tax, depreciation and amortization, impairments including goodwill and sale of tangible and intangible fixed assets – herein referred to as EBITDA – attained CZK 82.1 billion, which amounts to a year-on-year decline of 4.4%. The year-on-year net income dropped by CZK 5.0 billion to CZK 35.2 billion. The drop in year-on-year income could primarily be attributed to a marked decrease of wholesale electricity prices as a result of the massive support for renewable energy sources together with the stagnant European economy, and growing uncertainty as regards regulatory conditions for power engineering in the European Union. These factors caused a substantial decline in the margin from generation, but also a further drop in income due to adjustments to fixed assets.

On the other hand, CEZ Group's results were positively influenced y-o-y by removing of CEZ Shpërndarje, the Albanian distribution and sales company, from the consolidated group in January 2013, the takeover of administration of electricity buy-out from renewable resources and from combined electricity and heat generation in the Czech Republic by the electricity market operator, higher revenues from coal mining and transportation, and an extraordinary income from the sale of the Chvaletice power plant as well.

See Fig. 4 „CEZ Group financial results" in the Annex

As of December 31, 2013, CEZ Group consolidated assets amounted to CZK 641.1 billion. CEZ Group's return on assets (ROA) reached 5.6%, return on equity (ROE) reached 14.1% and return on invested capital 8.0%.

Dear shareholders, before looking at the structure of these results in more detail, I would like to make a few comments about their reporting structure.

The results of the CEZ Group are recorded according to the segment into which the Group is divided, both in terms of territory in Central Europe and Southeastern Europe, and in terms of sector, which includes the entire value chain from the mining, generation and trading of electricity and heat through to their distribution and sale. Sector segments also include gas trade and its sale to end customers, the sale of mobile telephony services as well as trading in other commodities. Other important activities, in particular auxiliary activities such as IT, logistics, facility management and others, are recorded separately.

See Fig. 5 „Breakdown according to individual segments: EBITDA in 2013" in the Annex

As usual, the largest share, 57%, in the total earnings before interest, tax, depreciation and amortization, impairments including goodwill and sale of tangible and intangible fixed assets – EBITDA – was attributable to the Power Production & Trading Segment Central Europe, which primarily comprises generating electricity in the Czech Republic and Poland, and trading in electricity and other commodities. The annual contribution of CZK 46.9 billion meant a year-on-year decrease of CZK 10.1 billion. The drop in EBITDA in the Czech Republic was mainly due to lower realization prices of generated electricity with an influence of CZK -6.7 billion, a lower generation volume with an impact of CZK -2.0 billion, a drop in revenues from auxiliary services, and the revaluation of derivatives. The year-on-year decline in EBITDA in Poland was negatively impacted mainly by an extraordinary revenue from the sale of surplus emission allowances of CZK -1.3 billion in 2012 and by a drop in prices of color certificates allocated as part of the support for combined electricity and heat generation and energy generation from renewable resources.

The 1.7 TWh decline in generation volume in the Czech Republic was particularly influenced by coal-fired power plants with a 3.1 TWh drop in production as a result of the sale of the Chvaletice power plant, and longstanding downtime of the Prunéřov II power plant due to the ongoing comprehensive renewal. This was partly compensated by a 0.5 TWh increase in generation from renewable resources, a 0.4 TWh increase in capacity and a reliable operation of nuclear power plants, and a 0.5 TWh increase in natural gas generation when Počerady steam-gas power plant running was tested. A year-on-year increase of almost 40% in heat delivered from CEZ Group resources was recorded in the Czech Republic as a result of the acquisition of Energotrans in June 2012.

Distribution & Sale Central Europe segment contributed roughly one fourth to the overall result and attained a year-on-year EBITDA increase of CZK 1.9 billion. Electricity distribution saw a year-on-year improvement of CZK 3.2 billion, in particular due to the corrective factors of statutory buyout of electricity generated from renewable resources from the previous years and an increase in revenues from reserved distribution grid capacity, since the total annual volume of distributed electricity remained almost unchanged. However, EBITDA in sales in the Czech Republic and Slovakia recorded a year-on-year drop, in particular due to the settling of unbilled electricity in 2012. The volume of electricity sold to end customers in the Czech Republic dropped by 0.6 TWh year-on-year, which amounts to almost 3%, and by 0.1 TWh (6.1%) in Slovakia. The drop was mainly due to a loss of customers, which was however considerably reduced y-o-y in 2013, also thanks to the successful launch of the new ČEZ FIX tariff, which was used by about 20% of households and small businesses by the end of 2013. ČEZ Prodej maintained its leading position on the electricity market in all customer segments: wholesale, retail and households. It ranked as the largest alternative natural gas supplier.

The Mining Central Europe segment attained a CZK 0.5 billion year-on-year increase in EBITDA due to a 0.9 million ton increase in the total volume of coal sold and higher revenues from coal transportation.

The EBITDA of Production & Trade Southeastern Europe recorded a year-on-year decline by CZK 0.9 billion as a result of unfavorable development in the regulatory environment in Romania and Bulgaria. The negative development in the financial results of our Bulgarian companies was mainly caused by the lower volume of production and creation of provisions for ash dump reclamation. The financial results of the Romanian Fântânele and Cogealac wind farms were unfavorably affected by the lower market price of green certificates, delayed allocation of the second green certificate to both farms from July 2013, and suspended allocation of certificates for part Fântânele Vest from November 2013.

The Distribution & Sale Southeastern Europe segment attained a CZK 4.7 billion year-on-year improvement in EBITDA, mainly due to the elimination of the Albanian distribution and sales company from the consolidated CEZ Group in January 2013, with an impact of CZK +6.0 billion. In contrast, operating profits of the Bulgarian and Romanian companies decreased year-on-year. The year-on-year volume of electricity sold and distributed in Bulgaria was down by 0.3 TWh, or 0.2 TWh, respectively. The financial results were further influenced by negative decisions on prices in 2013 and higher adjustments to receivables from the Bulgarian state-owned energy company, NEK. The year-on-year volume of electricity sold and distributed in Romania dropped by 0.3 TWh, which amounts to 9.3%, or respectively by 0.5 TWh, which is 7.5%.

Nevertheless, the margin from electricity sales grew by CZK 0.5 billion. The overall year-on-year comparison was influenced by the extraordinary profit in 2012 associated with the settlement of liabilities by companies from the group of Romanian state-owned railways.

Dear shareholders, in the following section, which is no longer divided according to business segments, I will guide you through the Cash Flow and Balance Sheet for the CEZ Group.

See Fig. 6 „CEZ Group cash flow overview" in the Annex

Compared to 2012, net cash flow from operating activities increased by CZK 8.0 billion to a total of CZK 72.6 billion, mainly due to changes in working capital. The main cause behind the positive change to working capital was a decrease in the emission allowance and certificate inventory deu to settlement of partial business strategy in 2013 with an influence of CZK +9.1 billion, and a decrease in fossil fuel and material inventory.

A CZK 12.8 billion decrease was recorded in the volume of funds used for investment activities. Investment in tangible and intangible fixed assets dropped year-on-year by CZK 6.4 billion, the sale of the Chvaletice power plant in September 2013 brought CZK +4.1 billion, while the purchase of Energotrans in 2012 affected the year-on-year comparison.

Funds used for financial activities, including the net effect of currency translations in cash, recorded a year-on-year increase of CZK 9.5 billion. The main cause behind this was a year-on-year decrease of CZK -13.7 billion in the balance of the loans and credits repaid and drawn. The lower volume of dividend payments by CZK 2.7 billion y-o-y had the opposite effect just as a change in long-term liabilities and the effect of currency exchange rate differences.

See Fig. 7 „CEZ Group assets and equity and liabilities as of December 31st" in the Annex

The CEZ Group's consolidated assets grew year-on-year by CZK 5.0 billion to CZK 641.1 billion. An increase in tangible fixed assets due to construction work in progress including advance payments of CZK 16.8 billion was partly compensated by a decrease in net tangible fixed assets of CZK 11.1 billion. In addition to standard depreciation, this also includes the effect of impairments to fixed assets, elimination of Albanian distribution company from consolidation and the sale of the Chvaletice power plant. Current assets increased year-on-year by CZK 13.4 billion.

Equity, including non-controlling interests, increased year-on-year by CZK 8.9 billion to CZK 263.1 billion. Net income generated in 2013 increased equity by CZK 35.2 billion, while dividends reduced equity by CZK 21.3 billion. Long-term liabilities declined by CZK 2.0 billion to a total of CZK 239.1 billion. Long-term bank and other loans decreased by CZK 9.6 billion
as a result of their repayment. As opposed to this, liabilities from issued bonds including ČEZ's own bonds grew by CZK 1.9 billion, and other liabilities, mainly from derivative trading, by CZK 4.3 billion. As of December 31, 2013, issued bonds reached CZK 171.1 billion, i.e. a year-on-year growth of CZK 15.6 billion. The sum of long-term loans at the end of 2013 amounted to CZK 25.4 billion, a CZK 7.2 billion decrease when compared to the end of 2012.

During the course of 2013, ČEZ made three issues, and ČEZ Energo, 50.1%-owned by ČEZ, made one issue of bonds.

Interest rates of the US dollar, euro and other major currencies grew during 2013. Especially in the first half of the year this growth was accompanied by great interest from investors to buy longer maturity bonds. ČEZ used this opportunity to exercise the bond with a maturity of 15 years representing a total volume of EUR 500 million, i.e. about CZK 12.9 billion at the then applicable rate, with a 3.0% coupon, the lowest one among comparably long transactions in the history of ČEZ. In October 2013, ČEZ paid EUR 372 million, i.e. about CZK 9.5 billion, for bond issues not bought back and not cancelled in the previous buybacks of bonds.

Dear shareholders, now I would like to take a brief look at the financial results and selected indicators concerning the ČEZ, a. s. company only, and the proposal for dividends to be paid for 2013.

See Fig. 8 „ČEZ, a. s. financial performance" in the Annex

The joint-stock company ČEZ reported a CZK 9.0 billion decline in its net profit to CZK 26.4 billion, and a CZK 12.7 billion decline in EBITDA to CZK 35.9 billion in 2013. The main cause behind the year-on-year decline in profits was significant reduction in wholesale electricity prices together with a growing uncertainty of regulatory conditions for power engineering in Europe. These factors not only brought about a marked decline in the margin from generation, but also led to creation of impairments to fixed assets, just as was the case at all large power companies in Europe. On the other hand, extraordinary income from the sale of the Chvaletice power plant had a positive impact. The results achieved and the year-on-year comparison are also influenced by changes to the CEZ Group structure. For example, the impact of the split-offs of Počerady Power Station and Dětmarovice Power Station into separate companies on ČEZ, a. s. EBITDA and net income was CZK –4.3 billion and CZK –3.2 billion, respectively, in year-on-year terms.

See Fig. 9 „Proposed dividend payment by ČEZ, a. s. for 2013" in the Annex

In the past six years, the dividend paid to you, our shareholders, corresponded to the aims of our dividend policy of dividing funds amounting to 50 to 60% of the CEZ Group's consolidated profit to you. This year we propose a dividend payment of CZK 40 per share, as we did last year. The proposed dividend payment amounts to about 61% of the consolidated net income of the CEZ Group. Dear shareholders, the decision taken on the actual amount of the paid dividend for 2013 will certainly depend on you.

In the following section, I will inform you about selected investment projects in the Czech Republic in 2013.

See Fig. 10 „Temelín nuclear power plant development" in the Annex

Within the project to build two new units of the Temelín nuclear power plant, the following activities took place: evaluation of applicants' bids and negotiations with applicants, preparation of the authorization and licensing process, preparation of associated projects and induced investments, and in some cases implementation of these. The EIA (Environmental Impact Assessment) process continued by assessment of comments on the opinion by the Ministry of the Environment and subsequent publication of its favorable opinion.

Given the energy market development, the decision about the project implementation period was postponed in July 2013 on the grounds that the final decision can be made when the following basic conditions have been met: Compliance with the final approved state energy concept of the Czech Republic has been confirmed and basic conditions for the return on investment have been ensured.

On April 9, 2014, the Czech government adopted a resolution that given the ongoing discussion about the future of power engineering within the EU, it does not currently plan to grant guarantees or a stabilizing mechanism to build low-carbon sources. At the same time, it declared its interest in further developing nuclear engineering in the Czech Republic, stating that it would prepare a complex plan for this area by the end of 2014. In response to this, ČEZ cancelled the procurement procedure to build two new units of the Temelín nuclear power plant on April 10, 2014, at the same time confirming that preparation of the project as such is still underway.

In the area of nuclear safety, measures according to the National Action Plan on Strengthening Nuclear Safety and the specific nuclear power plant's safety strengthening program, in relation to stress tests prescribed, have taken place following the accident at the Fukushima nuclear power plant. Investments have been made in an alternative power supply for the Dukovany nuclear power plant along with investment in modernizing aimed at increasing the efficiency of power generation and extending power plant operations after 2015. Our second nuclear power plant, Temelín has also undergone modernization, with installed capacity of both units being increased to a total of 2,250 MW. The nuclear power plants also ran reliably in terms of fuel. The Temelín nuclear power plant was operated with new fuel on both units, which confirmed its qualities and the possibility to speed up fuel reloading operations during downtimes.

2013 also brought many significant events within the renewal of coal-fired power plants in the Czech Republic. The comprehensive renewal of the Prunéřov II power plant, which started in 2012, continued. Construction and assembly work on the new source of the Ledvice power plant reached completion and the functional tests were undergone. The anticipated completion date is November 2014. The CCGT at the Počerady power plant is close to completion. Work on greening projects aimed at meeting emission limits after 2016 also got underway in the Počerady, Dětmarovice and Mělník sites.

See Fig. 11 „CEZ Group electricity generation" in the Annex

In 2013, the CEZ Group generated electricity to the volume of 66.7 TWh, lower by 2.1 TWh year-on-year. The generation in the Czech Republic of 62.3 TWh was lower by 1.7 TWh, i.e. 2.7%, compared with 2012. Generation in the most cost-effective nuclear power plants increased, whereas by contrast generation in coal-fired power plants declined by 9.8% in relation to launching comprehensive renewal of three units of the Prunéřov II power plant, different structure of the coal supplied, a higher breakdown rate of certain sources, and sale of the Chvaletice power plant in September 2013.

Generation of the foreign coal-fired power plant in Varna also fell resulting from lower demand on the regulated market in Bulgaria. CEZ Group reported a growth in generation in Poland and Romania. Generation of coal-fired power grew in Poland especially due to the lower negotiated price for the Skawina power plant; on the contrary, electricity generation from biomass declined due to unfavorable development of market conditions. In Romania, 2013 was the first year of full operation of the Fântânele and Cogealac wind farms, which resulted in year-on-year growth in generation. At the end of 2013, the reconstruction of small hydroelectric plants in Southwest Romania near the town of Reşița was finished, increasing their installed capacity from the original 18 to almost 22 MW.

According to our expectations, the CEZ Group should provide generation of 66.5 TWh in 2014, which is similar to that of 2013.

The investigation by the European Commission into ČEZ and Severočeské doly, which got underway in November 2009, came to an end in 2013. Let me remind you that this concerned the alleged abuse of dominant position and obstructing

competitors from entering the wholesale market for electricity generation. The investigation was terminated in the form of settlement, which represents standard practice in the area of EU competition law. In this case, the Commission accepts commitments proposed by the investigated entity and terminates the whole proceedings, providing that they conclude the settlement leads to sufficient strengthening of competition on the market, and there is no need to continue the investigation. ČEZ, a. s. thus eliminated the risk of a long and costly demonstration of the fact that it did not engage in anti-competitive conduct, and at the same time sold the Chvaletice power plant in line with its own strategy of coal resource development to operate only modern, low-emission power plants with fuel reserves. In June 2013, ČEZ, a. s. submitted to the European Commission a reasoned proposal for approval of the buyer, Litvínovská uhelná a.s., and transaction documentation to sell the Chvaletice power plant. The European Commission approved the buyer at the end of July 2013. Indispensable approval of the Office for the Protection of Competition was issued as early as late May 2013. The Chvaletice power plant was handed over to the new owner in early September 2013.

We will now take a look at current news on foreign markets where the CEZ Group operated in 2013.

See Fig. 12 „CEZ Group in Europe" in the Annex

In 2013, the CEZ Group fulfilled its strategy for operating top-quality assets in stable countries. It is within this spirit that it launched preparations for the consolidation of activities in foreign markets aimed at optimizing capital structure of local companies.

In Poland, generation from coal resources increased mainly as a result of signing a more advantageous contract for coal against 2012, and the use of favorable market conditions. The CEZ Group has also developed projects dealing with generation from renewable energy resources there. A new small hydroelectric plant Borek Szlachecki was put into operation near the Skawina coal-fired power plant. A portfolio of projects for wind farms is being prepared in the north of the country.

In Romania, power generation at the finished Fântânele and Cogealac wind farms was already in full swing. With effect from 1 July 2013, the Romanian government approved a decree on the change to the support for electricity generation from renewable resources. Among other things, the change involves postponement of marketability of "green" certificates used as a support for generation from renewable resources. Until the end of 2017, wind power plants may temporarily negotiate only one of two allocated green certificates. In addition, temporary accreditation for the allocation of green certificates for the part of the Fântânele Vest wind farm, representing 44% of the total installed capacity of both farms, expired at the end of October 2013. This happened due to the delay in compulsory individual notification by the European Commission. The practical consequence was suspended allocation of green certificates for these wind turbines. In connection with cutback in support for generation from renewable resources, the CEZ Group sent a complaint and a motion to the European Commission against Romania.

In neighboring Bulgaria, CEZ Group's ownership interests were placed under pressure at the beginning of 2013, when electricity bills became an impulse for politically motivated street protests. This enormous political pressure led to the launch of proceedings to suspend licenses of the distribution and sales company in February 2013. When the political situation calmed down, the process continued applying the standard methods, and proceedings were stopped by the regulator in November since the claim was unsubstantiated. It has been proved that all obligations associated with holding licenses have been met by the CEZ Group as per the intentions defined by the energy regulator in Bulgaria. The Bulgarian parliament furthermore passed a bill in February allowing for electricity prices to be changed at any time during the regulatory period. The regulatory authority took immediate advantage of this opportunity and reduced electricity prices for households by 7.17% in the distribution region of ČEZ Razpredelenie Bulgaria for the period from March 5, 2013 to June 30, 2013, which was prolonged by the resolution of the National Assembly to July 31, 2013. Reductions in prices also continued in the following period; prices for ČEZ household customers fell by 4.4% with effect from August 1, 2013 and by another 2.44% with effect from December 30, 2013. The total price reduction in the distribution region of CEZ Razpredelenie Bulgaria AD reached 9.9% for end users between January 1, 2013 and January 1, 2014. Bulgarian ownership interests were put under further control of the regulator and government authorities in 2013 and 2014. On March 19, 2014 the Bulgarian regulator launched proceedings to revoke the license for electricity supplies from the sales company CEZ Elektro Bulgaria.

Construction of the steam-gas power plant in Egemer, with a total installed capacity of 872 MW, continued according to the time schedule in Turkey. Its commissioning is planned for the second half of 2014. Liberalization of the electricity market continued, meaning practically every consumer except households and the smallest enterprises have the right to choose their suppliers at present. Customers began using this right especially in the second half of 2013.

Business activities of the CEZ Group in Albania practically ceased in 2013. Let's briefly describe the sequence of preceding events. In December 2011 as part of its decision on tariffs, the Albanian regulatory authority took an unprecedented step for the period 2012-2014. It raised the regulated prices to buy electricity for the company CEZ Shpërndarje by 91%, but did not correspondingly raise regulated prices for end customers. In spite of repeated calls from ČEZ, the Albanian

regulatory authority did not take any action in 2012 to avert the distribution company CEZ Shpërndarje's inability to meet its obligations as a license holder, and therefore to avert its unavoidable inability to cover its commitments. At the end of 2012, proceedings were initiated to revoke the distribution license on account of an alleged failure to meet license conditions. On January 21, 2013, the regulatory authority in Albania decided to revoke licenses for the distribution and sale of electricity to tariff customers of CEZ Shpërndarje, and at the same time appointed an administrator who took over its administration and the exercise of shareholders' rights belonging to ČEZ, a. s. This resulted in loss of control, de facto termination of CEZ Group's business activities in Albania, and the elimination of CEZ Shpërndarje from the consolidated CEZ Group. In seeking to protect its shareholders, ČEZ appealed against the appointment of the administrator and officially informed the government of the Republic of Albania of its intent to initiate international arbitration proceedings to protect its investments by sending the Notice of Dispute, which was delivered to the Albanian party on February 11, 2013. The date of delivery was the first day of cooling-off period, which provided the chance to negotiate an amicable settlement of the dispute. This time-limit expired on May 12, 2013 with no agreement reached. On May 16, 2013, the Notice of Arbitration was delivered to the Albanian party, by which ČEZ, a. s. officially initiated arbitration proceedings against Albania based on the Energy Charter Treaty under the rules of the United Nations Commission on International Trade Law. Negotiations about out-of-court settlement parameters took place at the same time.

To conclude let's take a look at what the CEZ Group expects in 2014.

See Fig. 13 „In 2014, expected EBITDA is CZK 70.5 billion and net income roughly CZK 27.5 billion" in the Annex

According to the facts known as of February 27, 2014, we expect consolidated earnings before interest, tax, depreciation and amortization, impairments including goodwill and the sale of tangible and intangible fixed assets – EBITDA – to reach roughly CZK 70.5 billion, and consolidated net income of about CZK 27.5 billion in 2014. Net income of the parent company, ČEZ, a. s. is expected to amount to roughly CZK 20 billion, with the majority being made up by estimated dividends from its subsidiaries.

The expected results should be seen in the context of the existing complex situation in power engineering. They particularly reflect unfavorable developments on the European energy markets, accompanied by the unremitting trend of falling wholesale electricity prices and worsening regulatory conditions for power engineering. Let's describe in more detail the main influences on the expected year-on-year decline in EBITDA. The following four factors have the deepest negative impact:

- Decline in realization prices of electricity generated in the Czech Republic with an impact of CZK -6.6 billion;
- Extraordinary income from trading in emission allowances in 2013 and a lower allocation of emission allowances for generation in NAP III, with an impact of CZK -3.5 billion;
- Decline in the margin from generation and distribution in Southeastern Europe as a result of lower regulated tariffs for 2014 in Bulgaria, and postponement of the allocation of green certificates in Romania, with a total impact of CZK -1.5 billion; and
- Decline in the margin from mining as a result of the drop in coal prices linked to development of the electricity price, with an impact of CZK -1.0 billion.

On the contrary, factors that should have a positive impact of CZK +1.4 billion on EBITDA:

- Growth in efficiency and margin at modernized power plants in the Czech Republic;
- Savings in external fixed operating costs in the area of generation and distribution in Southeastern Europe; and
- Savings in the external fixed operating costs of subsidiaries in the Czech Republic.

In addition, the year-on-year comparison of net income was influenced by a number of significant extraordinary revenues and expenses in 2013. These specifically involved charges for impairments to fixed assets and write-offs of goodwill, which led to an increase in expenses of CZK 8.4 billion in 2013. On the other hand, an extraordinary revenues from the sale of the Chvaletice power plant of CZK +3.0 billion and from the elimination of CEZ Shpërndarje from the consolidation group with an impact of +1.8 billion were reached in 2013.

In terms of the major risks related to the forecasted income in 2014, the CEZ Group is concerned about the development of regulatory and legislative conditions for power engineering in Southeastern Europe, which is hard to predict, while it is also concerned about potential impairments to fixed assets in the event of further unfavorable development of energy market regulation in Europe.

In 2014, the CEZ Group expects investments in fixed assets to be at a similar level to investments in 2013, i.e. roughly CZK 44 billion, most of which it plans to invest in generation facilities.

In terms of 2014 cash flow, the CEZ Group expects to cover planned investment and financial expenses, including dividends, from cash flow generated by operating activities, meaning no significant change to the overall debt of the CEZ Group is expected in 2014.

Dear shareholders, I am convinced that we have made full use of the potential of the CEZ Group in 2013 to ensure long-term growth and increase of assets' value in the most effective way allowed by conditions on energy market. I firmly believe, that thanks to our strong team of almost 27,000 employees, we will continue to drive our success in future years.

Thank you for your attention and your interest in developments at ČEZ.

Annex 1

Report on business operations and the state of assets of ČEZ, a. s. in 2013